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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 8331

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DEPARTMENT PASS AID

E.O. 11652: NA

TAGS: EAID EG

SUBJ: PLANNING FOR THE FY 1976 AID PROGRAM

REF: STATE 156555

SUMMARY: AID PROGRAM FOR FY-76 SHOULD BE ESTABLISHED AT \$350-400 MILLION LEVEL. AREAS OF MAIN CONCENTRATION SHOULD CONTINUE TO BE SUEZ RECONSTRUCTION (\$150-200 MILLION); AND INDUSTRIAL REHABILITATION (\$100 MILLION); WITH ADDITIONAL AMOUNTS FOR PROJECTS (\$75 MILLION); TA (\$10 MILLION) AND STUDIES (\$5 MILLION). PL 480 TITLE I REQUEST SHOULD CONTINUE TO RECEIVE HIGHEST PRIORITY; TITLE II PROGRAMS FILL A VITAL NEED. END SUMMARY

1. I HAVE GIVEN CAREFUL THOUGHT TO THE QUESTIONS RAISED IN REFTEL, AND HAVE DISCUSSED THE SUBJECT THOROUGHLY WITH
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MEMBERS OF MY STAFF AND VISITING AMERICANS, PARTICULARLY MESSRS. NOOTER AND TEMPLETON. I AM CERTAIN THAT THE

OVER-RIDING IMPORTANCE OF OUR POLITICAL OBJECTIVES IN THE MIDDLE EAST AND THE SIGNIFICANT ROLE THAT OUR AID PROGRAMS CAN PLAY IN THEIR ATTAINMENT IS CLEAR TO EVERYONE IN WASHINGTON; I WILL THEREFORE DEVOTE MY ATTENTION TO THE PURELY ECONOMIC ASPECTS OF OUR EFFORTS. IN THE SAME SENSE, I WILL ASSUME THAT THERE IS COMPLETE AND SYMPATHETIC COMPREHENSION WITH RESPECT TO THE PAUCITY AND UNRELIABILITY OF EGYPTIAN PLANNING AND STATISTICAL DATA; WE WILL DO THE BEST WE CAN.

2. THE FOLLOWING SECTIONS ARE NUMBERED TO CORRESPOND IN GENERAL TO THE PARAGRAPHS IN REFTEL, WITH ALLOWANCES FOR REPETITION AND OVERLAP AS NECESSARY.

3. WHATEVER SUM THE CONGRESS FINALLY APPROVES FOR FY-75 ASSISTANCE TO EGYPT, I DO NOT BELIEVE THAT IT WOULD BE POLITICALLY ACCEPTABLE FOR US TO OFFER A PROGRAM IN FY-76 AT A LEVEL BELOW WHAT WE ORIGINALLY PROPOSED FOR FY-75, I.E. \$250 MILLION. IN FACT, GIVEN THE PERIOD THAT WILL HAVE ELAPSED SINCE THE BEGINNING OF OUR RENEWED RELATIONSHIPS, THE GOE WILL EXPECT A SIGNIFICANTLY LARGER PROGRAM. OF FAR GREATER IMPORTANCE, HOWEVER, EGYPT WILL HAVE A SIGNIFICANTLY GREATER NEED AS ITS DEVELOPMENT EFFORTS GET UNDERWAY. I THEREFORE RECOMMEND THAT THE FY-76 REQUEST FROM CONGRESS CONTAIN AT LEAST \$350 MILLIONFOR EGYPT, WITH \$400 AS THE UPPER LIMIT. FOR PLANNING PURPOSES, WE SHOULD CONTINUE TO FOCUS THE MAJOR SHARE OF OUR ASSISTANCE ON SUEZ RECONSTRUCTION (\$150-200 MILLION) AND THE REHABILITATION OF INDUSTRIAL CAPACITY (\$100 MILLION, WHICH WILL STILL BE OF THE HIGHEST PRIORITY FOR THE GOE. IN ADDITION, WE SHOULD PLAN ON \$75 MILLION FOR PROJECTS, \$10 MILLION FOR TA, AND \$5 MILLION FOR FEASIBILITY STUDIES AND SURVEYS. AT THE SAME TIME, WE SHOULD BEGIN TO PAY INCREASED ATTENTION TO SAME SECTOR PROGRAMS THAT WILL FORM THE BASIS FOR OUR ASSISTANCE IN THE OUT YEARS.

4. (A) GIVEN THE PRESENT CIRCUMSTANCES RELATED TO THE FY-75 PROGRAM, BOTH IN TERMS OF THE FACT THAT THE AMOUNTS FINALLY AUTHORIZED FOR EGYPT MAY BE WELL BELOW THE FIGURES INITIALLY
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REQUESTED AND WILL CLEARLY NOT BE AVAILABLE FOR UTILIZATION DURING AN ENTIRE FISCAL YEAR, THERE WILL BE ADDITONAL AS WELL AS UNFULFILLED RECONSTRUCTION AND REHABILITATION NEEDS TO WHICH WE SHOULD COMMIT OURSELVES. THE GOE'S MASSIVE PLANS FOR THE RECONSTRUCTION OF THE SUEZ CANAL AREA CALL FOR THE EXPENDITURE OF VAST SUMS OF MONEY (LE 3.3 BILLION) OVER EXTENDED PERIODS OF TIME. WHILE WE CAN CONTRIBUTE ONLY A MINOR SHARE OF THE FOREIGN CURRENCY COSTS ASSOCIATED WITH THOSE PLANS, OUR PARTICIPATION IN THE EARLY STAGES WILL HAVE AN ECONOMIC AND POLITICAL IMPACT GREATLY IN

EXCESS OF THE AMOUNTS OF DOLLARS INVOLVED DUE TO THE ALL-IMPORTANT SIGNIFICANCE THE GOE ATTACHES TO THE EFFORT. FURTHER, WE SHOULD BEAR IN MIND THE CONTRIBUTION TO STABILITY IN THE MIDDLE EAST THAT WOULD RESULT FROM THE RE-ESTABLISHMENT OF A CIVILIAN ECONOMY IN THE AREA.

(B) THE MAJOR WORK RELATED TO THE RECONSTRUCTION OF THE SUEZ AREA WILL PROBABLY JUST BE COMING ON STREAM BY THE MIDDLE OF NEXT YEAR, AS A RESULT IN PART OF THE EXTENSIVE PLANNING EFFORT NOW UNDERWAY. SINCE THE SCOPE OF OUR ASSISTANCE SHOULD GO BEYOND RECONSTRUCTION TO THE DEVELOPMENT OF THE AREA, AN ILLUSTRATIVE LIST OF THE ACTIVITIES WE SHOULD SUPPORT SHOULD INCLUDE (ALL DATA IN MILLION OF DOLLARS): ELECTRIC POWER (MULTIPLE 100 MW UNITS) 30 TO 50; LAND RECLAMATION 25 TO 40; PORT CONSTRUCTION 40 TO 60; WATER SUPPLY 20 TO 25; HOSPITALS 5 TO 10; EQUIPMENT OF VARIOUS KINDS 10 TO 20. TOTAL: FROM \$130 TO 205 MILLION.

(C) WITH RESPECT TO REHABILITATION OF THE INDUSTRIAL SECTOR, OUR ASSISTANCE WOULD AGAIN HAVE AN IMPORTANCE THAT WOULD EXCEED THE MERE DOLLAR FIGURES. IDLE AND UNDER-UTILIZED INDUSTRIAL CAPACITY IS ONE OF THE MAJOR CONTRIBUTORS TO THE GROWING BALANCE OF TRADE DEFICITS, AND ONE OF THE PRINCIPAL OBSTACLES TO A RAPID RETURN TO ECONOMIC GROWTH. EGYPT'S FOREIGN EXCHANGE NEEDS IN THIS CONNECTION WILL GREATLY EXCEED HER OWN CAPACITIES IN THE SHORT RUN.

(D) FOR THE MOST PART AND FOR REASONS WITH WHICH THE USG IS QUITE FAMILIAR, MOST OF THE ASSISTANCE THAT HAS BEEN OFFERED TO EGYPT, OR IS IN THE OFFING, IS RELATED TO PROJECTS RATHER THAN PROGRAMS. THUS, WHILE THE AIR IS FILLED WITH ANNOUNCEMENTS OF AID FROM A NUMBER OF DONORS IN FAIRLY LARGE AMOUNTS, LIMITED OFFICIAL USE
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THE ACTUAL AMOUNTS OF HARD CURRENCY AVAILABLE FOR USE IN THE REHABILITATION (AND RECONSTRUCTION) PROGRAMS, WHICH ARE CONSIDERED THE MOST URGENT BY THE GOE, ARE RELATIVELY SMALL. (THIS IS PARTICULARLY TRUE WHEN CONSIDERED IN RELATION TO THE LOCAL PROPENSITY TO ANNOUNCE THE RECEIPT OF AID WHICH MAY NOT ACTUALLY HAVE BEEN OFFERED.)

(E) I THEREFORE STRONGLY RECOMMEND THAT WE ESTABLISH A CIP OF \$100 MILLION FOR INDUSTRY IN FY-76. THESE FUNDS WILL BE CRITICAL TO EGYPT'S OVERALL DEVELOPMENT EFFORT; WITHOUT THEM THERE MAY BE SERIOUS SLOWDOWN OR, WORSE, A REVERSAL OF THE VERY INDUSTRIALIZATION EFFORT WE ARE INTERESTED IN ENCOURAGING. I WOULD ESTIMATE THAT FY-76 WOULD BE THE LAST YEAR IN WHICH WE WOULD HAVE TO ASK CONGRESS FOR ANY SIGNIFICANTLY LARGE SUMS OF BOP SUPPORT. THE NEW FIVE YEAR PLAN IS ANTICIPATED BY THE END OF THIS YEAR, AND THE GOE WILL HAVE HAD ADDITIONAL TIME TO DECIDE ON HOW THE ECONOMIC NEW LOOK WILL BE IMPLEMENTED. MUCH MORE WORK WILL HAVE BEEN DONE ON PROJECT

PLANNING AND ADDITIONAL FEASIBILITY STUDIES WILL BE AVAILABLE. WE SHOULD BEGIN NOW TO MOUNT SECTOR SURVEYS, BUT THEY COULD NOT BE COMPLETED IN TIME FOR PRESENTATION TO CONGRESS EVEN IF ALL THE NECESSARY DATA WERE PRESENTLY AVAILABLE. IN EFFECT, HOWEVER, I EXPECT A DE FACTO DIVISION OF THE CIP INTO SECTOR PROGRAMS AS THE EGYPTIANS SORT OUT THEIR PRIORITIES.

5. (A) GIVEN THE UNPREDICTABILITY OF SO MANY OF THE MAJOR DETERMINANTS, RELIABLE BALANCE OF PAYMENTS PROJECTIONS FOR EGYPT ARE EXTREMELY DIFFICULT TO MAKE. WHILE EXPORTS ARE EXPECTED TO GROW BOTH IN VOLUME AND VALUE, ESPECIALLY FOR COTTON, THE VASTLY INCREASED NEED FOR IMPORTS WHICH THEMSELVES REFLECT RISING INTERNATION PRICES FOR VIRTUALLY ALL COMMODITIES YSLL ALMOST CERTAINLY RESULT IN A WIDENED TRADE GAP (LE 226 MILLION IN 73). FURTHER, SINCE EXPANSION OF INDUSTRIAL PRODUCTION AND THEREFORE EXPORTS IS ITSELF DEPENDENT ON IMPORTS AND IS FURTHER SUBJECT TO A TIME-LAG FACTOR, THE IMPACT ON THE BOP IS EVEN GREATER THAN FOR THE AGRICULTURAL SECTOR.

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(B) ON THE OTHER HAND, TO THE EXTENT THAT UNREQUITED LOANS AND TRANSFERS CONTINUE TO BE RECEIVED FROM ABROAD AT A LEVEL THAT COMPARES FAVORABLE WITH THAT OF 1973 (LE 254 MILLION), THE PRESSURE ON THE BALANCE OF PAYMENTS WILL BE REDUCED SOMEWHAT. THUS FAR, HOWEVER, WE HAVE THE DISTINCT IMPRESSION THAT THE WEALTHY ARAB STATES ARE LOOKING INCREASINGLY TO INVESTMENT PROJECTS IN EGYPT, AND THEIR WILLINGNESS TO CONTINUE TO MAKE DONATIONS IS QUESTIONABLE AT BEST, E.G. THE RECENT SAUDI ARABIAN OFFER. DESPITE THE ALMOST INCREDIBLE INCREASES IN THE RESOURCES AVAILABLE TO FEISAL, THE EGYPTIANS WERE ABLE TO OBTAIN A COMMITMENT OF ONLY \$300 MILLION.

(C) IN CONSIDERING THE BOP, ATTENTION MUST ALSO BE PAID TO THE CRITICAL QUESTION OF EGYPT'S DEBT BURDEN (AS WELL AS THE NEEDS FOR MASSIVE EXPENDITURES FOR FOOD, RAW MATERIAL AND INTERMEDIATE GOODS FOR INDUSTRY, AND THE REDEVELOPMENT EFFORT). TO FINANCE ITS TRADE DEFICIT, THE GOE BORROWED VERY HEAVILY IN 1973, INCREASING ITS SHORT TERM CREDITS FROM LIMITED OFFICIAL USE

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ABOUT \$55 MILLION IN 72 TO MORE THAN \$350 MILLION. THERE WERE OTHER, PRESUMABLY LONGER-TERM BORROWINGS OF ABOUT \$340 MILLION. THE IMF ESTIMATES THAT THE TOTAL EXTERNAL DEBT (EXCLUDING MILITARY CREDITS) WAS ABOUT LE 1.3 BILLION AT THE END OF 73. ABOUT HALF OF THE TOTAL PRINCIPAL AND INTEREST ON THESE LOANS FALLS DUE WITHIN THE NEXT FOUR YEARS, AND WILL REACH LE 153 MILLION IN 74 AND LE 149 MILLION IN 75. THESE FIGURES REPRESENT MORE THAN 27 PERCENT OF THE TOTAL VALUE OF GOODS AND SERVICES EXPORTED IN 173.

(D) IN SUM, WE ESTIMATE THAT EGYPT'S BOP IN 1975 WILL SHOW A VERY LARGE BALANCE OF TRADE DEFICIT. THE NET INFLOW OF UNREQUITED TRANSFERS WILL COVER A LARGE PART OF THIS DEFICIT, BUT WILL PROBABLY NOT BRING ABOUT A CURRENT ACCOUNTS SURPLUS. THE CONTINUED DETERIORATION OF THE CAPTIAL ACCOUNT RESULTING FROM INCREASED REPAYMENTS OF BOTH LONG-TERM LOANS AND SUPPLIER CREDITS, WITHDECREASED RELIANCE ON THE LATTER, WILL LEAD TO AN OVERALL DEFICIT. THE MISSING INGREDIENT IN THIS ESTIMATE IS FOREIGN ASSISTANCE, ABOUT WHICH WE HAVE NO CLEAR INDICATIONS.

6. (A) GIVEN THE VAGARIES OF THE SITUATION , PRECISE ESTIMATES FOR PL 480 REQUIREMENTS IF FY 1974 ARE IMPOSSIBLE TODETERMINE. THE COST OF EGYPT'S FOOD IMPORTS MORE THAN DOUBLED BETWEEN 1972 AND '73, PRIMARILY BECAUSE OF HIGHER WORLD MARKET PRICES, AND CONSTITUTED ABOUT 40 PERCENT OF THE TOTAL COST OF IMPORTS IN THE LATTER YEAR. WHILE THE PROJECTED TOTAL OF IMPORTS IN 1974 IS NEARLY DOUBLE THAT OF 1973, THIS REFLECTS BOTH GREATER QUANTITIES AS WELL AS HIGHER PRICES FOR SOME OF

THE COMMODITIES, PARTICULARLY WHEAT. SINCE THE PRICE OF WHEAT HAS FALLEN SHARPLY IN RECENT MONTHS, AND MAY HOLD AT PRESENT LEVELS, EGYPT MAY ACTUALLY SPEND ONLY A LITTLE MORE IN 74 THAN IT DID LAST YEAR, SOMEWHAT REDUCING THE STRAIN ON THE SHARPLY LIMITED FOREIGN CURRENCY AVAILABILITIES.

(B) NEVERTHELESS, IT IS THE LACK OF AVAILABLE HARD CURRENCIES THAT ACTS AS THE MOST SERIOUS BRAKE ON THE OVERALL DEVELOPMENT EFFORT, AS WELL AS THE PROVISION OF NEEDED FOODSTUFFS FOR THE POPULATION. WHILE IT MAY BE A PARADOX FOR A PRIMARILY AGRICULTURAL NATION TO RELY ON VAST QUANTITIES OF IMPORTED FOOD TO SUPPORT ITS POPULATION, THE SITUATION EXISTS AND MUST BE A MAJOR FACTOR IN OUR THINKING, PARTICULARLY SINCE PL 480 IS ONE OF THE FEW MEANS WHEREBY THE IMMEDIATE LIMITED OFFICIAL USE

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ADVERSE IMPACT ON FOREIGN EXCHANGE IS GREATLY REDUCED. AS WASHINGTON IS AWARE, THE GOE WILL BE INTERESTED IN OBTAINING AS MANY COMMODITIES AS POSSIBLE UNDER TITLE I, IN AS LARGE QUANTITIES AS POSSIBLE.

(C) I SUGGEST THAT WE BE AS FORTHCOMING AS CIRCUMSTANCES WILL PERMIT, SINCE PL 480 IS A MAJOR FACTOR IN OUR OVERALL PROGRAM OF ASSISTANCE TO EGYPT. IT IS FULLY SUPPORTIVE OF DOLLAR INPUTS BY PERMITTING EGYPT TO OBTAIN VITALLY NEEDED FOOD AT CONCESSIONARY TERMS, AND THEREBY MAKE OTHER USE OF ITS RESERVES IN AREAS WHERE SIMILAR ADVANTAGES ARE NOT AVIALABLE.

(D) I THEREFORE STRONGLY URGE THAT WE CONTINUE TO GRANT THE HIGHEST PRIORITY TO EGYPTIAN TITLE I REQUESTS, AT THE MOST FOVORABLE TERMS AVAILABLE UNDER THE ACT. TITLE II PROGRAM ESTIMATESARE NOT YET AVAILABLE, BUT I ANTICIPATE A SIZEABLE INCREASE OVER THE PRESENT SIZE OF THIS IMPORTANT ACTIVITY AS CARE RESUMES FULL-SCALE OPERATIONS.

7. I RECOMMEND THAT \$5 MILLION BE SET ASIDE FOR FEASIBILITY STUDIES AND SURVEYS IN FY-76. THE LACK OF SOUND AND CAREFULLY PLANNED PROJECTS MAY BE ONE OF THE PRINCIPAL CONSTRAINTS ON EGYPT'S DEVELOPMENT IN THE NEXT FEW YEARS. THESE FUNDS CAN PROBABLY BE MOST USEFULLY CHANNELED THROUGH AN EXISTING GOE ORGANIZATION,PERHAPS THE AGENCY FOR ARAB AND FOREIGN ECONOMIC COOPERATION, RATHER THAN BY SETTING UP A SEPARATE INSTITUE. ADDITIONALLY, THE PRIMARY FOCUS SHOULD BE ON PROJECTS RELATED TO EGYPT'S INFRASTRUCTURE SINCE WORK DONE BY A GOVERNMENT AGENCY ON PROJECTS DESIGNED TO ATTRACT PRIVATE CAPITAL WOULD NOT BE CONSIDERED MEANINGFUL BY AN INVESTOR, WHO WOULD HAVE TO RELY ON ONE COMPLETED BY HIS OWN PEOPLE.

8. (A) TECHNICAL EXCHANGE SHOULD BE LIMITED TO SHORT-TERM HIGH-LEVEL TDY BOTH HERE AND INTHE US, RATHER THAN PERMANENT ASSIGNMENTS. THIS WILL PROVIDE FLEXIBILITY AND AT THE SAME

TIME PERMIT US TO FOCUS ON THOSE AREAS REQUIRING ATTENTION WHICH MAY DEVELOP DURING THE COURSE OF THE YEAR. AN AMOUNT OF \$10 MILLION WOULD BE NEEDED. OBSERVATION, ACADEMIC TRAINING AND PRACTICAL FIELD WORK SHOULD BE UTILIZED FOR EGYPTIANS SENT TO THE STATES FOR THESE PURPOSES. IT IS PERHAPS SOMEWHAT EARLY TO PROJECT OUR ORGANIZATIONAL LIMITED OFFICIAL USE

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RESPONSES TO THE GOE'S REQUESTS FOR TECHNICAL ASSISTANCE, SINCE I AM NOT AT ALL CERTAIN THEY HAVE WORKED OUT THEIR OWN PRIORITIES FOR FY-75, BUT THE EXPERIENCE GAINED WITH THE OPERATION OF THE JWG'S OVER THE COMING MONTHS SHOULD PROVIDE THE ANSWERS WE NEED.

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(B) AGRICULTURE WILL UNDOUBTEDLY BE ONE OF THE MAJOR AREAS OF CONCERN. IN ADDITION TO PROVIDING AND DEVELOPING EXPERTISE, THE PROGRAM WILL GIVE US A MUCH CLEARER PICTURE OF THE SITUATION AND PROBLEMS WITH WHICH OUR FUTURE SECTORAL SUPPORT FOR RAISING PRODUCTIVITY AND THE STANDARD OF LIVING OF THE FARM COMMUNITIES WILL BE EXPECTED TO DEAL. IN ADDITION, CONSIDERABLE UTILITY MIGHT BE OBTAINED FROM THE PROVISION OF BUDGETARY, FINANCIAL AND TAX EXPERTISE, ALTHOUGH THE EXACT TERMS OF REFERENCE FOR THIS ASSISTANCE HAS NOT YET BEEN DETERMINED.

9. (A) THE ANSWER TO QUESTIONS ON CAPITAL PROJECTS IS COMPLICATED BY THE DEARTH OF DATA AND PLANNING REFERRED TO ABOVE. I AM NOT CERTAIN THAT THE GOE ITSELF KNOWS WHAT THE MOST CRITICAL NEEDS ARE, AT LEAST NOT NOW, AND IT MAY BE SOME LITTLE TIME BEFORE THE SITUATION BECOMES CLEARER. NEVERTHELESS, SINCE OUR AID SHOULD CLEARLY GO LIMITED OFFICIAL USE

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BEYOND THE SCOPE OF RECONSTRUCTION AND REHABILITATION INTO DEVELOPMENT, SOME PROVISION MUST BE MADE FOR ASSISTANCE TO THE CAPITAL PROJECTS THAT ARE CERTAIN TO EMERGE.

(B) FOR THIS REASON, AND IN KEEPING WITH THE INTENT OF CONGRESS AS EXPRESSED IN THE FOREIGN ASSISTANCE ACT OF 1973, I RECOMMEND THAT WE CONCENTRATE A SIZEABLE PROPORTION OF OUR CAPITAL AID ON THE RURAL AGRICULTURAL SECTOR. THE AID PLAN FOR THE CONSTRUCTION OF CONCRETE GRAIN STORAGE SILOS, ABANDONED AFTER THE 67 WAR, WAS BOTH SOUND AND OF CONSIDERABLE UTILITY. ABOUT \$40 MILLION SHOULD BE SET ASIDE FOR IMPLEMENTATION AND COMPLETION OF THAT PROJECT. RURAL ELECTRIFICATION, FOR ABOUT \$25 MILLION, WOULD BE ANOTHER MAJOR CONTRIBUTOR TO THE GROWTH AND DEVELOPMENT OF THE COUNTRY, AFFECTING IN PARTICULAR THE FARMERS THAT CONSTITUTE THE BULK OF THE POPULATION. NEITHER OF THESE ACTIVITIES HAS AS YET ATTRACTED ANY KNOWN INTEREST FROM OTHER POTENTIAL DONORS, AND ARE PRECISELY THE AREAS IN WHICH THE US HAS HAD CONSIDERABLE EXPERIENCE.

(C) AN ADDITIONAL \$10 MILLION SHOULD BE EARMARKED FOR CAPITAL ASSISTANCE PROJECTS (HOUSING, WATER SUPPLY AND PURIFICATION, ETC.) IN THE HEAVILY OVERCROWDED AND EXTREMELY POOR AREAS OF THE MAJOR CITIES, CAIRO AND ALEXANDRIA.

10. (A) WHILE I BELIEVE THAT MOST OF THE SUBJECTS MENTIONED IN PARA 10 OF REFTEL ARE COVERED IN THE ABOVE DISCUSSION, IT MAY BE USEFUL TO COMMENT SPECIFICALLY ON A FEW OF THE PRINCIPAL POINTS, NOT NECESSARILY IN THE ORDER THEY APPEARED.

(B) WE IN CAIRO ARE ACUTELY AWARE OF THE NEW THRUST TO OUR AID PROGRAMS THAT HAS BEEN DETERMINED BY THE CONGRESS AND SUBSCRIBE TO THEM COMPLETELY. ONCE THE PROGRAM IS FULLY

UNDERWAY, I AM CERTAIN THAT WE CAN DIRECT THE TOTALITY OF OUR EFFORT TO THE DESIRED OBJECTIVES WITH A MEANINGFUL IMPACT ON EGYPT'S DEVELOPMENT. FOR THE IMMEDIATE FUTURE, HOWEVER, I AM CONVINCED THAT WE MUST CONCENTRATE ON HELPING THE GOE TO RE-ESTABLISH AN ORIENTATION TOWARD A CIVILIAN ECONOMY BY THE MEANS I HAVE DESCRIBED. IN THIS WAY, WE WILL HAVE MADE A MAJOR CONTRIBUTION TO LAYING THE GROUNDWORK FOR A MORE RATIONAL DEVELOPMENT EFFORT ALONG THE LINES DESIRED BY CONGRESS. IN THIS WE WILL HAVE THE COMPLETE COOPERATION OF THE GOE, SINCE ITS PRESENT THINKING

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PARALLELS OUR OWN.

(C) IN MY CONVERSATIONS WITH EGYPTIAN LEADERS, I HAVE BEEN STRUCK BY THEIR DESIRE TO OVERCOME THE DIFFICULTIES THAT FOR GENERATIONS HAVE LEFT THE FELLAHIN ALMOST COMPLETELY OUT OF THE PICTURE INSOFAR AS THE GROWTH AND DEVELOPMENT OF THE COUNTRY ARE CONCERNED. THEY EXHIBIT UNANIMOUS UNDERSTANDING THAT THE FUTURE OF THE COUNTRY IS INEXTRICABLY LINKED WITH BREAKING THE CHAIN OF IGNORANCE, POVERTY, DISEASE AND OVERPOPULATION THAT HAS THUS FAR DISSIPATED THE BASIC WEALTH OF THE NATION AND PREVENTED ATTAINMENT OF SELF-SUSTAINING ECONOMIC GROWTH. THE EFFECTS OF ALMOST TOTAL CONCENTRATION ON A WAR ECONOMY FOR THE LAST SEVEN YEARS IS EVERYWHERE UNDERSTOOD, AND THE PRESENT RECONSTRUCTION AND REHABILITATION PROGRAMS ARE DESIGNED TO OVERCOME THE RESULTS OF THAT CONCENTRATION AND LAY THE GROUNDWORK FOR THE FAR MORE BASIC AND INFINITELY MORE DIFFICULT TASK THAT LIES AHEAD.

(D) SADAT'S ECONOMIC OPEN-DOOR POLICY IS ONE OF THE ELEMENTS THAT FITS INTO BOTH ASPECTS OF THE TOTAL EFFORTS. HE INTENDS THAT IT EVENTUALLY REACH INTO EVERY YPL EGYPTIANS EITHER DIRECTLY OR INDIRECTLY. IT IS INTENDED TO BE A COMPLETE CHANGE IN THE ECONOMIC AND SOCIAL FABRIC OF THE NATION AFFECTING TRADITIONAL BEHAVIOR IN BOTH SPHERES, IN PRECISELY THOSE AREAS THAT INTEREST THE CONGRESS: INCOME DISTRIBUTION, EQUITY, AND THE ROLE OF WOMEN.

(E) IN THE SECOND OF THESE CATEGORIES, WE ARE FORTUNATE TO BE DEALING WITH AN ARAB STATE IN WHICH THE TRADITION OF WOMAN AS SECOND CLASS CITIZENS (OR WORSE) HAS BEEN LARGELY OVERCOME, PARTICULARLY IN THE CITIES AND IN THE FIELDS OF EDUCATION, THE PROFESSIONS AND BUSINESS. THE CONCEPT OF EQUAL PAY FOR EQUAL WORK, FOR EXAMPLE, IS ALREADY IN EFFECT HERE. WHILE THE SITUATION IN THE RURAL AREAS IS SOMEWHAT DIFFERENT, THE GOE WILL NEED LITTLE IF ANY ENCOURAGEMENT FROM US ON THIS SCORE SINCE IN MANY RESPECTS EGYPT IS AHEAD OF THE US IN TERMS OF THE WOMAN'S ROLE. WE CAN THEREFORE ANTICIPATE A WARM RECEPTION FOR ANY OFFERS OF PROGRAM ASSISTANCE IN THIS AREA.

(F) INCOME DISTRIBUTION CHANGES POSE A MORE INTRACTABLE

PROBLEM, AS WASHINGTON IS WELL AWARE, SINCE IT CALLS FOR
AN ALMOST TOTAL RESTRUCTURING OF AGRICULTURAL LIFE, UNIVERSALLY
THE MOST RESISTANT TO CHANGE. HERE AGAIN, HOWEVER, THE GOE
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IS FULLY COGNIZANT OF THE MAGNITUDE OF THE PROBLEM AND ITS
PRE-EMINENT ROLE IN ANY FUTURE BETTERMENT OF THE COUNTRY,
AND CAN BE COUNTED UPON TO COOPERATE FULLY AND ENTHUSIASTICALLY.

(G) I HAVE ALREADY EMPHASIZED, BUT IT BEARS REPETITION, THAT
OUR FY-75 AND 76 PROGRAMS SHOULD BE DESIGNED TO LAY THE
GROUNDWORK FOR THE LARGER UNDERTAKING BY PERMITTING THE
GOE TO GET ITS ECONOMY BACK ON ITS FEET. OTHER DONORS CAN
BE EXPECTED TO PLAY A ROLE IN THIS INITIAL PHASE, BUT IT
WOULD BE PURE SPECULATION TO ATTEMPT TO PUT FIGURES ON THE
SIZE OR COMPOSITION OF THEIR ASSISTANCE. IT CAN BE ASSUMED,
HOWEVER, THAT WITH THE POSSIBLE EXCEPTION OF THE ARAB STATES,
MOST OF THE ASSISTANCE WILL BE IN THE FORM OF LOANS RATHER
THAN GRANTS.

(H) WITH REGARD TO TITLE II PROGRAMS FOR FY-76 THERE IS
LITTLE THAT WE CAN SAY AT THIS TIME EXCEPT THAT THERE WILL
BE A DEFINITE NEED FOR THIS FORM OF ASSISTANCE ON A SCALE
PROBABLY CONSIDERABLY LARGER THAN AT PRESENT.

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Message Attributes

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Draft Date: 13 AUG 1974
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Decaption Note:
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Disposition Authority: CollinP0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
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Film Number: D740221-1227
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Handling Restrictions: n/a
Image Path:
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Legacy Key: link1974/newtext/t19740853/aaaabtcs.tel
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Locator: TEXT ON-LINE, ON MICROFILM
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Original Classification: LIMITED OFFICIAL USE
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